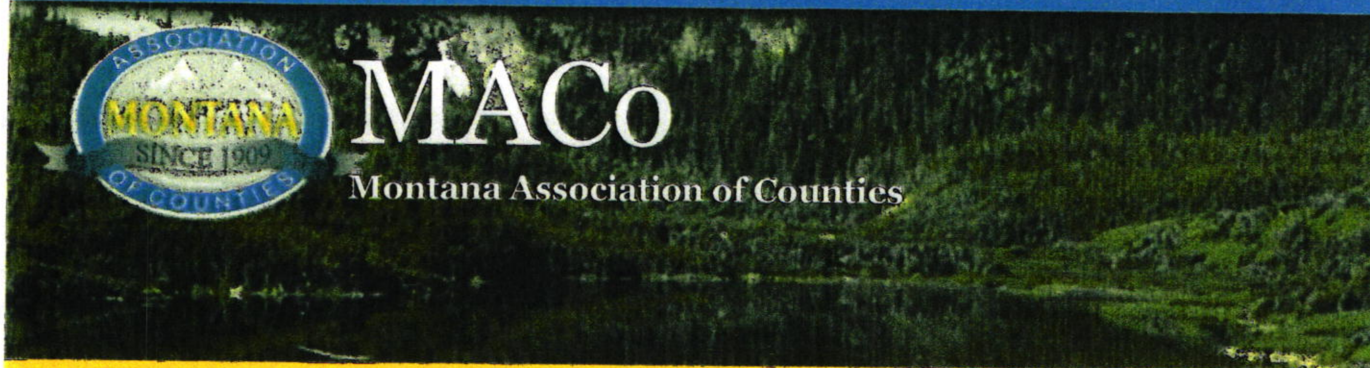

ENTITLEMENT SHARE

Contact: Harold Blattie, Executive Director, Montana Association of Counties

Click the link below to access a spreadsheet that contains the Entitlement Share Payment amounts for I 2016, as provided by the Department of Revenue. This spreadsheet also has a tab that tracks the amounts of the Entitlement Share Payments since its inception.

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HISTORY

The Entitlement Share Payment concept was born in HB 124 (2001) as a vehicle to provide payments tc counties for lost property tax revenue due to the re-direction of a number of different revenue stream: for both counties and the state. For example, we had a scenario where vehicle license fees were collected at the county level, then a portion was sent to the state with those dollars being split a multitude of different ways and some of it being sent back to the county to be distributed to various funds. The result was that there were many chances of errors being made.

Click here to access a Power Point with two slides that show an example of the streamlining of revenue collections and distributions at both the state and county level. The first slide shows the way those revenues were collected and distributed prior to HB 124. The second shows the same revenue collecti and distribution after the passage of HB 124.

The dollar amounts that counties received in 2001 under the old collection and distribution formulas became one of the components of the Entitlement Share "Base." The "Base Entitlement Share Payment" included additional fees and taxes that were re-directed to simplify the process and revenues such as DNRC PILT payments for counties having over 6% state land, Aircraft Registration Fees, video gaming revenue, Coal Tax Apportionment, Beer, Liquor and Wine Tax Apportionment, Corporate License Tax a others. Most significantly, it also included reimbursements for lost property tax revenue caused by SB 184 (1999) that reduced the tax rate on business equipment from 6% to 3%. All of those different revenue offsets became the "Base Year Component" for Entitlement Share Payment calculations.

During the same legislative session, legislation was passed that removed counties obligations for most district court and welfare costs and transferred the responsibility for funding those programs to the state. Those program costs had been rising at rates far beyond most counties' ability to continue calculated, the actual Entitlement Share Payment was established. Counties relinquished some revenu and were relieved of some obligations with the net of these things becoming the actual payment amount.

The Entitlement Share Payment was also intended to serve as a "vehicle" to adjust payments to countie in the future due to legislative changes. The first occurrence of this took place when the state assume the responsibility for providing public defender services. The county's actual prior year costs were deducted from the Entitlement Share Payment, because counties no longer were required to provide public defenders for indigent defendants in criminal cases. The total of that offset was $1,633,874. T annual cost for the Public Defender's office is now nearly $25 million. This is a cost counties would ha had to bear.

As the legislature continues to make adjustments in property taxes, subsequent reimbursements have been added to the Entitlement Share Payments such as the SB 372 reimbursement from 2011 and now the SB 96 reimbursement.

The growth rate was based upon two components until 2013. The legislation provided a formula to calculate the overall growth rate which was then applied with 50% based upon each county's base year component and the other 50% based on population, which was adjusted annually. That is why when y look at the individual county changes, the percent of growth is different for each county.

The next significant change was in 2011 when the legislature froze the payment amounts for FY-13 ar FY-14. The legislature also changed how the overall growth rate is calculated with the new "base" beir the actual 2012 payment amount. To that amount a uniform rate of growth is applied based upon a n formula that better-reflects changes in state general fund revenues. That growth rate is capped at 3%.

When the calculations were completed for FY-14 the growth rate hit the cap, therefore the growth rate applied to all counties payments will be 3%; however, the 2011 legislature also passed SB 372 which further reduced the tax rate on business equipment. The lost revenue from that legislation was added the base amount for each county--prior to the growth factor being applied. Because the lost revenue now included in the base, the actual increase in the Entitlement Share Payments for each county varies widely, as does the percent when you simply compare the FY-13 to FY-14 amounts.

Probably the most vivid example of these changes is Cascade County. Their original base year component was largely offset due to very high district court and welfare costs leaving a relatively small Entitlement Share Payment in 2003 so when you track Cascade County's percent of growth it consisten is higher than most counties because half of the growth amount was based on the base year compone When the revenue loss due to SB 372 is factored in for this year, their percent of growth is very high because of the reimbursement that is included to offset the loss of tax revenue for the reduction in business equipment taxes, which is a large portion of their overall tax base.

All in all, the Entitlement Share Payment is functioning just as was intended and envisioned in 2001.

One additional note: SB 96 further reduces the tax rate on business equipment and becomes effective for tax years beginning after December 31, 2013. Business equipment that is not liened to real prope (included in the real property tax statements) is taxed in May, based upon January values. This means that you will lose property tax revenue this fiscal year. However you will be reimbursed for that loss in June 2014 as a special Entitlement Share payment. Unfortunately, there is no way to predict with any certainty what those amounts will be. The Fiscal Note for SB 96 predicted the overall payment to local government will be approximately $5 million.

UPDATE - 2016

provisions that reduce Entitlement Share payments for both cities and counties.

For fiscal year 2016, the fiscal year entitlement share pool is reduced by $1,049,904

For fiscal year 2016, the entitlement share growth rate is applied to the most recently completed fiscal year entitlement payment minus $1,049,904 to determine the subsequent fiscal year payment

This reduction will be made to the 2016 base before the growth factor (projected to be 3.5%) is applied and will apply to city Entitlement Share payments. My preliminary estimate is that counties will should about 45% of the total reduction. These dollars will be used by the state to provide matching money fo federal reimbursements for mental health under the provisions of Inter-Governmental Transfers (IGT). Previously counties have provided $1.00 per capita to the state to be used for this purpose; however, some counties and Regional Mental Health Centers had stopped sending these funds to the state, arguing that the money could be better used at the local level. With the passage of HB 33, there is no expectation that counties will transfer any funds to the state for IGT, because those matching dollars w now come from the state general fund. Counties are under no obligation to distribute that $1.00 per capita to their Regional Mental Health Centers but are free to do so if they desire.

Below is a link to a memo from the Department of Revenue about HB 33 and how the calculations were done.

UPDATE - 2018

House Bill 565 - Revise Entitlement Share laws

For fiscal year 2018 the growth rate of the Entitlement Share is reduced to .5% for all local government

For fiscal year 2019 the growth rate of the Entitlement Share is reduced to 1.87% for all local governments

Reductions are one-time-only. The statutory growth rates are restored for fiscal year 2020 and thereafter at 3% for counties, 3.25% for consolidated governments and 3.5% for municipalities.

HB 565 allows the state to withhold Entitlement Share Payments if a local government fails to financial reports and remit payments due to the state:

> (b) A payment required pursuant to this section must be withheld if a local government:
>
> (i) fails to meet a deadline established in 2-7-503(1), 7-6-611(2), 7-6-4024(3), or 7-6-4036(1); and
>
> (ii) fails to remit any amounts collected on behalf of the state as required by 15-1-504 or any other amounts owed to the state or another taxing jurisdiction, as otherwise required by law, within 45 days of the end of a month.
>
> (c) A payment required pursuant to this section may be withheld if, for more than 90 days, a local government fails to:
>
> (i) file a financial report required by 15-1-504;
>
> (ii) remit any amounts collected on behalf of the state as required by 15-1-504; or
>
> (iii) remit any other amounts owed to the state or another taxing jurisdiction."

Additional Information:

- Entitlement Share Spreadsheet
- House Bill 565 (2017)
- House Bill 33 (2015)

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